

MEMO

NRQA 44380

30 July 54

Chief, Berlin
Chief of Mission, Frankfurt

Info: Chief, NE

Operational/GADONY

Agent Tax Payments

Ref: NRQA 13382

DECLASSIFIED AND RELEASED BY
CENTRAL INTELLIGENCE AGENCY
SOURCE METHOD EXEMPTION 3020
NAZI WAR CRIMES DISCLOSURE ACT
DATE 2007

1. In view of past experiences involving possible compromises and security flaps arising out of the non-payment of taxes by KUBARK indigenous agents, it is this Mission's view that, wherever possible, indigenous agents will pay taxes on their total income, including all compensation from KUBARK.

2. It is recognized that there will be exceptions to this rule, but these exceptions will require Mission and/or Headquarters approval on a case-by-case basis and will have to be tailored to fit the individual business or employment status of the agent. Particularly the GADONY agent should be cautioned on the necessity for paying taxes on KUBARK compensation under a sound cover, as the GADONY activities are of increasing interest to various elements of the Federal Republic Government. Inasmuch as the Federal Republic tax and financial legislation also extends to West Berlin, tax investigations provide a convenient mechanism for the authorities to gain insight into and control over the GADONY operations based in that city.

3. Specific comment on the cases reported in the reference is as follows:

a. We agree that GADONY's overt business provides adequate cover for the KUBARK funds injected into his operations. However, it should be made quite clear to GADONY that we believe he is paying taxes on the income from us and that we are not responsible for any difficulties which may ensue if this is not the case.

1) f. The question of tax payments by GADONY and his staff is complicated by the rather weak cover employed by KUBARK for salaries. It is requested that, during the present assessment of KUBARK, you review the present arrangements and make recommendations for a new cover for this group which will also take into account the need for full tax payments by the agents.

1. In NRQA 38206, we commented on the confidential payment made to [] and requested that you check up further as to how this confidential payment could be covered by revising his overt salary upward or by some other device. We are still awaiting a reply.

LCCASOCH Tm

Original held by Nlan

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